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SUBJECT: RWE PROPOSES TWO NEW APPROACHES TO GET NABUCCO
MOVING

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¶1. (SBU) In a December 9 meeting with Econ Officers, an official from German RWE raised two new approaches RWE is pursuing to advance the Nabucco gas pipeline project. The first approach he outlined would be for RWE and Austrian OMV to form a "Caspian Energy Corporation" to negotiate directly with Turkmenistan to buy gas for Nabucco. The second approach would be to co-opt the competition by inviting Italian Edison to join the Nabucco consortium.

The Caspian Energy Corporation

¶2. (SBU) RWE is not necessarily opposed to the Commission's proposal to form a "Caspian Development Corporation" (CDC, reftel) as a way to bring Turkmen gas into Nabucco, but it is concerned that the World Bank study process proposed by the Commission will take too long. RWE is also wary of any business solution designed by the Commission. As a result, RWE and OMV are seeking to form a "Caspian Energy Corporation" (CEC) whose purpose would be the same as that of CDC, but would only involve the two partners (at least initially). Our RWE contact said there was too much "noise" surrounding the CDC proposal and that he believes a private company would be able to act more quickly to approach Turkmenistan with a credible offer to buy gas. RWE has pitched the same idea to EU Energy Commissioner Andris Piebalgs, but so far Piebalgs is "not too keen" on the idea.

¶3. (SBU) RWE believes it is essential to move now to lock in a secondary source for Nabucco (beyond Azerbaijan). CEC would look at the "tie-in option", that is tying in offshore Turkmenistan gas production facilities to nearby offshore Azerbaijan production facilities and requiring only about 60 km of new pipeline. This would be a "baby step" but could provide up to 8 bcm of gas for Nabucco. RWE indicated this approach could potentially get around the whole Caspian delimitation issue that would undoubtedly have to be addressed for a trans-Caspian pipeline solution as envisaged by CDC. Another option RWE would like to consider is for CEC to buy gas from Turkmenistan via Iran, this could be either via actual transit or through a swap arrangement with Iran and Turkey. Econ Officers reminded our RWE contact that the U.S. would not support any solution involving Iran. Ideally, according to RWE, CEC would also involve an upstream partner in Turkmenistan, such as Petronas or a U.S. or other Western company. CEC would only need to negotiate an intergovernmental agreement (IGA) between Azerbaijan and Turkmenistan, as once the gas entered Azerbaijan it would go into the Nabucco system. CEC would basically be an instrument to aggregate demand and build any necessary

infrastructure to deliver the gas to Azerbaijan.

14. (SBU) Commission officials at DG-TREN told Econ Officers on December 12 that the Commission would not be opposed to the CEC idea as long as it is pro-competitive and results in getting the gas necessary for Nabucco to go forward. The Commission is of the opinion, however, that Turkmenistan will need more than a simple offer to buy 8 bcm of gas to make the commitment to ship gas west to Europe. In the Commission's mind, Turkmenistan needs a financial guarantee for a substantial amount of income for a long period of time.

15. (SBU) According to the Commission, the CDC concept would be for an initial volume of 12-13 bcm with up to a 50-year take-or pay guarantee which would be backed up by the European Investment Bank (EIB). The Commission also sees CDC as providing cover for private companies vis-a-vis Russia. The Commission believes any company that made a deal directly with Turkmenistan would suffer in its relations with Gazprom, where as with CDC the companies would only be participating in a smaller way and likely would not engender the same response from the Russians. The Commission is optimistic that the proposed World Bank study on CDC can be concluded by June 2009, which would allow for a 2010 startup and could bring gas volumes on stream by 2015.

16. (SBU) The Commission intends that CDC would also be used as a development mechanism (investing in schools, infrastructure, and training) to achieve the EU's wider development goals in the region. Our contacts reaffirmed that the Commission does not envisage CDC having any role in upstream development. The World Bank put an upstream role in

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the original Terms of Reference, but this not something the Commission proposed and not something the Commission will accept. The demand for gas presented by CDC could require Turkmenistan to hold a new licensing round for development of additional offshore or onshore blocks, but this would not affect existing contracts and is not something CDC would participate in.

17. (SBU) Econ Officers also spoke with a contact from Italian Edison -- the Italian part of the Turkey-Greece-Italy pipeline (TGI) -- about the CDC concept on December 15. Edison is not opposed to the idea of a CDC as long as it is not a "Commission Club of Friends." Even then, Edison would probably participate as a way to get more gas. Edison is skeptical, however, of any Commission solution to getting gas from Turkmenistan and fears that it would be influenced by EU politics.

If You Can't Beat Them, Join Them

18. (SBU) According to our contact, RWE would be interested in having Edison join the Nabucco consortium as a way of eliminating the competition for Azeri gas volumes posed by TGI. RWE believes that if any Azeri gas goes to TGI instead of Nabucco, the Nabucco project will be dead for at least eight years. According to RWE, Edison is not in this to build pipelines, it just wants the gas for its electricity generation. As such, why not have Edison join Nabucco as an equity partner? RWE is now approaching Electricite de France (EDF) -- who is a large shareholder in Edison -- to garner support for bringing Edison into Nabucco. In RWE's mind there will be plenty of capacity in Nabucco to accommodate Edison's needs. As our RWE contact put it, there is a "fully open door" for Edison to join Nabucco as the seventh equity partner.

19. (SBU) Econ Officers raised the notion of Edison joining Nabucco with our Edison contact. Our contact laughed, but said that this was not the first time he had heard of this idea. He said, however, he was not aware of any ongoing negotiations and that he, based in Brussels, would likely not be involved in any such discussions. He said that joining

Nabucco would have a certain appeal for Edison. The driver behind Edison's desire to build TGI is to obtain an alternate gas source. Currently Edison is totally dependent on Italian Eni for all its gas supply. Building TGI would diversify Edison's gas sources away from a single supplier. Edison is not a pipeline company and would likely look favorably on any solution that allowed it to buy gas directly from the source, rather than Eni.

¶10. (SBU) Comment. Our industry contacts at both Nabucco and TGI express a greater sense of urgency than that felt by the Commission and like many in industry they are skeptical of any solution proposed by government. Both of RWE's proposals appear promising. The CEC idea could accomplish the goal of bringing Turkmen gas west without the Commission baggage attached to the CDC idea -- provided CEC were not granted an exclusive export license from Turkmenistan. Having Edison join Nabucco would likewise eliminate the competition between Nabucco and TGI for Azeri volumes. RWE, Edison, and the Commission would all prefer to see their individual plans come to fruition, but at the end of the day all of them would likely support any solution that results in Caspian basin gas flowing to them through the Southern Corridor. End Comment.

Silverberg

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